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Craig Gibbs, the owner of a FastSigns, at his new location on Morningside Ave. in Scarborough, Ont. on March 31, 2017. Municipal taxes at his new location are half of what they were at his old location on Kennedy Rd.

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Rising commercial property taxes put small-business owners in a bind

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Andrew Feenstra moved his bike store, Cyclesmith, in late 2014, following a redevelopment of the Halifax building the shop had been in for decades. Rather than close during the building's construction, Mr. Feenstra moved, signing a 15-year lease and renovating a building on Agricola Street, an up-and-coming area in the city's north end.

With a long-term tenant in place and improvements to the building, the assessed value of the property climbed. Mr. Feenstra's 2016 property-tax bill, passed on to him from his landlord, jumped 39 per cent, adding about $12,000 to the $30,000 bill he says he paid the previous year.

"That's two full-time jobs for summer students that I can't hire now," Mr. Feenstra says. "Why would I want to fix up the building if the city is going to punish me for that?"

Across the country, small business owners face similar conundrums, driven by the non-residential property tax system. While municipalities rely on the taxes as a key revenue source, many entrepreneurs say the system is unpredictable and unfair. The expense is causing small businesses to relocate, reconsider expansions and, in some instances, shutter.

John Kiru is the executive director of the Toronto Association of Business Improvement Areas (BIAs), which represents more than 40,000 local businesses. "Property taxes are the most frequently referred-to cost that a business incurs that is a challenge to them," he says.

In Toronto, the commercial property tax rate is 2.5 times the residential rate for the first $1-million in assessed value of a property. In many other parts of the country, non-residential property owners pay an even higher tax rate. But Mr. Kiru says the system still leaves Toronto business owners feeling like they're paying a disproportionate amount, as neighbouring municipalities boast commercial tax rates just 1.5 times the residential tax.

In Toronto and Vancouver, the soaring residential real-estate market is also complicating matters. A tax bill is a function of a tax rate multiplied by a property's assessed value, and assessed values in commercial areas are rising, thanks to skyrocketing residential real-estate prices in those cities. If a property's assessed value increases at a higher rate than the city's average change in property values, the taxes for that property will increase.

The process for assessing a commercial property's value varies across the country. Some municipalities, including Toronto and Vancouver, base commercial assessments on a property's best potential use, as opposed to actual use.

"In many cases the highest and best use is [the same as] the current use, so there's not really an issue," says Adam Found, metropolitan policy fellow with the C.D. Howe Institute, who has studied property taxes. "But in some cases, the highest and best use is not the current use, so you can end up with a property liable for a tax bill that doesn't reflect the income stream the property is earning."

The situation means businesses in small buildings can end up paying more per square foot in property taxes than those in high-rises. "We can't for much longer operate on a highest-and-best-use assessment methodology," Mr. Kiru says.

Vancouver small business owners are being hit with a "wickedly unfair double whammy" in how they are valued and taxed, says Paul Sullivan, partner at the property-tax consultancy Burgess Cawley Sullivan & Associates.

Mr. Sullivan is working with two City of Vancouver councillors and the Urban Development Institute, where he chairs the property tax committee, to find a solution with the province, by rewriting legislation on how small businesses are taxed.

"It's a complicated problem, because it involves valuation, taxation and politics, and it takes a lot of analysis to understand the impacts," he says.

Changes to main street

For Craig Gibbs, owner of FastSigns Scarborough, a signs and graphics franchise, high property taxes were a big driver in his decision to move his business and its 10 employees in January.

Mr. Gibbs says he was initially drawn to Kennedy Road because of its great location. He operated on Kennedy for a decade, moving storefronts once, but over time the lease and accompanying property tax were becoming cost-prohibitive. Mr. Gibbs recently bought a commercial condo on Morningside Avenue in Scarborough.

“The new space is a little larger, about 20 per cent, and the property taxes are half of what I was paying [on Kennedy Road],” he says.

Chris Rickett, manager of entrepreneurship services at the City of Toronto, led a committee that identified challenges faced by small businesses, such as FastSigns, over property taxes, and published a report on the topic in 2015.

The group settled on issues such as the disparity between residential and commercial property tax rates and the commercial property assessment levels in rapidly developing areas.

These issues are leading to change on Toronto’s main streets, Mr. Rickett says, as independent retailers can’t survive and restaurants, bars and chain stores take over.

“Part of the challenge is our main street retail has changed so much over the last 30 years,” he says. These avenues were once populated by business owners who lived above their stores and owned the building. Now, many small business owners lease space.

“Under the older model, you could absorb the tax increase much more because you had the asset. Now it’s all just operating costs,” he says. “You don’t get the upside of the increase in [real estate] value because you’re just the guy renting the store.”

A pilot project in Toronto

Peter Sanagan, owner of Sanagan’s Meat Locker in Toronto’s Kensington Market, worries the burden of high property taxes is a barrier to new entrepreneurs.

“There’s a need for these small businesses, these mom-and-pop shops, to not just have the existing ones survive, but also make it a good environment for entrepreneurs,” he says.

After Mr. Sanagan saw his own property tax bill rise and watched neighbouring food vendors close, he and others involved in the Kensington Market BIA brought the issue to city councillor Joe Cressy.

That led Mr. Cressy to put forward a motion, adopted by council, for a pilot project that would examine new tax classes or financial relief in the form of tax adjustments for raw food vendors, grocers and other small retail businesses in Kensington Market.

“A key element and characteristic of Kensington has been the small-business market character, and we don’t want to lose that,” Mr. Cressy says.

Ted Mallett, vice-president and chief economist at the Canadian Federation of Independent Business, says property taxes can also limit the growth of a small business.

“Most businesses are actually home-based, and they start out of basements or third bedrooms of houses. If they get large enough, it can make sense to move into a fully functioning non-residential office space, but there’s a very high cost to doing that,” he says.

Dawn Lennie encountered tax burdens when she opened Legend Distilling, a B.C. craft distillery, with her husband in July of 2014. The entrepreneurs purchased an empty commercial building in their small community of Naramata, B.C., north of Penticton. They transformed the structure, which was previously used as a doctor’s office, into a distillery and tasting room.

“We knew what the taxes were when we looked at the property. They were high, we felt, but we knew what they were,” she says.

Her first tax assessment, which came before the new business had opened, showed a $1,000 increase. “It felt like for revitalizing this property and turning it into a viable business, here’s a nice big tax increase to go along with it,” Ms. Lennie says. “We hadn’t even made a sale yet.”

A rocky experience in Calgary

In recession-weary Calgary, some small business owners, operating mainly in the suburbs, were set to face dramatic increases in property taxes until the city stepped in.

Under the city's "revenue neutral" scheme, property tax bills increase or decrease based on how a property's assessment changes relative to the average. A struggling economy has led to high vacancies in the city's core, dropping assessed values by $4-billion. In turn, the redistribution of taxes saw mostly suburban business owners facing significant increases in their assessments.

The challenge led the city to announce a one-time $45-million tax relief fund to limit the assessment increases to a maximum of 5 per cent.

"Because it is a tax on an asset, through no fault of anyone's own, a company could have been facing a 15-, 20-, 30-per-cent increase in their property taxes, at a time when their business might be suffering quite substantially from a revenue standpoint," says Adam Legge, president and chief executive officer of the Calgary Chamber of Commerce.

"It's a flaw of the system," he said. "Suburbs were penalized simply because downtown lost occupancy."

While he's pleased with the short-term solution, Mr. Legge says the challenges in Calgary raise larger questions: "I think it speaks to the need to really address how we finance our cities, and the structure of that in Canada."

Jim Wright, owner of the Calgary tire shop Wheel Pro's, worries that increases to assessments – even if they're capped at 5 per cent – will be the final straw for some businesses, many of which continue to feel the ripple effects of an oil slowdown. Mr. Wright says he saw six of his commercial customers close their doors last year.

"As far as I'm concerned, if it's even a nickel above last year, it's totally unacceptable in this economy," Mr. Wright says.

Multiple tax rates is a start

Back in Halifax, the city is also grappling with how to better tax businesses. The current system has negative consequences on small businesses in the urban core, which are paying more in commercial property tax relative to the size of their business and cost to service, says Patricia Cuttell Busby, executive director of the North End Business Association.

"It's counterintuitive to the types of things we talk about from a planning perspective," Ms. Cuttell says.

Alongside other business improvement districts, Ms. Cuttell has been lobbying for years for commercial tax reform. Last November, following a request the previous year from Halifax Regional Municipality, the province made legislative changes to allow more flexibility on municipal property taxation, including allowing council to set multiple commercial tax rates and introduce tiered tax rates.

The municipality is deciding how to move forward, says Andre MacNeil, senior financial consultant at Halifax Regional Municipality.

"When we're talking about property tax, it really is a blunt tool. We can't get into the fine grain very easily with the tools we have had," Mr. MacNeil says.

In the meantime, Mr. Feenstra, of Cyclesmith, and other business owners are left waiting. Mr. Feenstra expects about a 10-per-cent increase to his property tax bill this year. He's planning to appeal the assessment, but he worries the process could be timely and costly.

"Where am I going to get this extra money I didn't plan for?" he asks. "It becomes quite a crunch."

How to appeal your commercial property tax bill

While a sudden rise in a property tax bill can sting a small business, many entrepreneurs are reluctant to invest time or money into appealing their assessments.

Business owners who think their assessment is unfair or inaccurate need to consider first how it was calculated, says Chris Jobe, manager of the property tax division at the real-estate consulting firm Turner Drake & Partners Ltd. in Halifax.

“Be prepared. Just saying your value is too high is not enough to get it reduced,” he says. “You have to back it up with some information.”

Some municipalities make that information, such as assessment calculations and sale prices, easy to obtain, he says, while others require a request for information from an assessment department.

“If you are concerned, or even if you’re not, it’s always good to make yourself aware of how you’re valued and get a better understanding, because it’s your property,” Mr. Jobe says.

Paul Sullivan, of the Vancouver-based property-tax consultancy Burgess Cawley Sullivan & Associates, says tenants and owners should understand their taxes before a long-term lease is signed. The tax system is complex, Mr. Sullivan says, and business owners might not comprehend the burden they could face.

Mr. Jobe has filed property tax appeals for businesses across the country. Details vary by province, he says, but typically the process is outlined clearly on the tax assessment notice a property owner receives.

Taxpayers generally have a window of time to ask for a reassessment, and, in some provinces, a cost to filing a formal complaint. Business owners can do it themselves or hire outside help.

If property owners decide to file a formal complaint, or have someone do so on their behalf, the next step is typically preparing and submitting evidence as to why they feel their property should be reassessed. In some provinces, a hearing will occur before a decision is determined.

The arguments a city will accept in lowering a bill vary, but Mr. Jobe says successful appeals typically involve proving a property has been overvalued in its assessment.

While the appeal process can extend beyond the deadline for paying property taxes, business owners are typically still on the hook for paying upfront, then waiting for a potential refund.
